

# REVENUE SECURITY MANAGEMENT

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## **1. Introduction**

Revenue Security Management, within the context of Eskom Distribution, can be most simply defined as the assessment of customer's credit worthiness and evaluation of the financial risk as a result of non-payment of their accounts.

Effective security management is to manage the factors that will maintain and protect the Distribution's revenue flow and minimise financial losses.

Against this background a Revenue Security Strategy was developed which clearly categorises customers into various segments and addresses the various risks and dictates the various processes to be adopted. Various options are made available dictating security requirements dependant on risk and payment timing and mechanism.

## **2. International Debt Practices**

Much research was done via the internet some international utilities were visited, namely

- AES ELECTROPAULO – Sao Paulo -Brazil
- CEMIG - Belo Horizonte and Rio de Janeiro
- CERJ - Sao Paulo, Belo Horizonte and Rio de Janeiro
- RIO LIGHT – Rio de Janeiro
- LUZ Y FUERZA DEL CENTRO (LFC) – Mexico City
- COMISION FEDERAL DE ELECTRICIDAD – Mexico - Morelia
- COMISION FEDERAL DE ELECTRICIDAD – Mexico – Acapulco
- ESB – Republic of Ireland
- NIE - Northern Ireland
- NATIONAL POWER ( N POWER) - London

The following learning points were noted

- Most utilities in America, Europe and Asia use the “good paying principle” to some degree
- Deposits for SPU & LPU customer's ranges from 1 - 3 months and some utilities return deposits after 12 months if a customer honours his payments. If he then defaults in the future, a deposit is raised again
- If a customer is on a life support machine and cant pay his account the CB of the supply will be downgraded to match the machines requirement, responsibilities are clearly defined in the agreement.
- In Canada and the USA customers are not disconnected in the winter
- AES ElectroPaulo do credit checks on new customers but are also forced by law to supply anyone that applies for electricity
- Penalty Charge and interest for overdue customers are applied by most utilities in Brazil and Mexico
- **Large Power User Customers are on remote metering. Disconnections take place 4 days after customers receive their bills if no payment was made. Due to this vigorous disconnection policy, deposits are not called for in most cases.**
- Focus on making it easier for customers to pay accounts is applied by most utilities visited
- Very good Encourage payment options. Suppliers sponsor total program with all sorts of prizes including cars Limited cost to Utility as program partners carry the cost.

- No deposits are required by UK utilities – abolished in 1998. They believe that this has contributed to their increasing debt levels
- Customers are forced to convert to pre payment if their payment record deteriorates. The outstanding debt is recovered when he buys pre-payment tokens.
- If a Large Power User is disconnected he is forced onto direct debit / ACB. If customers convert to direct debit they receive a 5 - 7% discount on their monthly bills.

With this research completed a Revenue Security Strategy for Eskom was developed. Much of the best practices observed during the International visit will be implemented within Eskom.

### 3. Revenue Security Strategy

The following aspects of the new Revenue Security Strategy will be discussed, namely

- Treatment of different supplies
- Security options
- Acceptable forms of security
- Provision of a credit rating in lieu or addition to security

#### 1. Treatment of Supplies

- **New Supplies** - All new customers are required to provide security. In the case of additional POD's to customers with existing supplies, the customer must provide security for the new supplies.
- **Existing Supplies** – When a customer gets into arrears with payments of his electricity accounts and Eskom holds zero security or inadequate security, there will be an immediate review of his Electricity Supply agreement and the required security will be raised on his account.
- **Take Over Supplies** - If an area of supply is taken over from another Distributor, the appropriate securities will be raised as per this policy.

#### 2. Security Options

##### In the case of Small Power Users (SPU)

Option	Security to cover a period of .... days of consumption	Requirements and conditions
1	90	<ul style="list-style-type: none"> <li>• Customer has <b>30</b> days, from the <b>bill date</b>, in which to pay the monthly account</li> <li>• <b>14</b> days notice, from <b>final payment date</b>, is given in cases of default before termination of supply</li> </ul>
2	60	<ul style="list-style-type: none"> <li>• Customer has acceptable payment record and signed Direct Debit payment mechanism. Monies will be drawn out of the account on day <b>15</b>.</li> <li>• Customer has <b>15</b> days, after the <b>bill date</b>, in which to pay the monthly account</li> <li>• <b>14</b> days notice, from <b>final payment date</b>, is given in cases of default before termination of supply</li> </ul>

In the case of Large Power Users (LPU):

Option	Security to cover a period of .... days of consumption	Requirements and conditions
1	90	<ul style="list-style-type: none"> <li>Customer has <b>15</b> days, from <b>bill date</b>, in which to pay monthly account</li> <li><b>14</b> days notice, from <b>final payment date</b>, is given in cases of default before termination of supply</li> </ul>
2	60	<ul style="list-style-type: none"> <li>Customer has acceptable payment record and signed Direct Debit form</li> <li>Customer has <b>7</b> days, from <b>bill date</b>, in which to pay monthly account</li> <li><b>14</b> days notice, from <b>final payment date</b>, is given in cases of default before termination of supply</li> </ul>
3	30	<p><b><u>This option applies to Key Customers and Large Customers equal or greater than 5 MVA</u></b></p> <ul style="list-style-type: none"> <li>Customer has acceptable payment record and pays by Direct debit or electronic banking</li> <li>Customer has <b>7</b> days, from <b>bill date</b>, in which to pay monthly account</li> <li><b>14</b> days notice, from <b>final payment date</b>, is given in cases of default before termination of supply</li> </ul>
4	0 – 90	<p><b><u>This option applies to only Key Customers</u></b></p> <ul style="list-style-type: none"> <li>Customer has acceptable payment record</li> <li>Acceptable credit rating by the approved Eskom rating agency. (See paragraph 3.2 – <b>short term national rating</b>)</li> <li>Customer has <b>5</b> days, from <b>bill date</b>, in which to pay monthly account</li> <li><b>14</b> days notice, from <b>final payment date</b>, is given in cases of default before termination of supply</li> </ul>

### 3. Acceptable forms of security

- Cash Deposit - When increased deposits are required, customers should be given the option to pay their cash deposit off over an extended period if they cannot afford a lump sum payment.
- Guarantee - Financial Institution - Customer are allowed to furnish a guarantee instead of a cash deposit as security for payment of his account. Only certain Financial and Insurance Institutions are acceptable to Eskom as guarantors.
- Guarantee - Holding Companies - Holding companies can provide a guarantee on behalf of its subsidiaries through means of a Letter of Undertaking providing that the Holding Company has a National short term A1 Standard and Poor, credit rating or equivalent.
- Pledging of Eskom or Government Stock - The customer should complete a deed of pledge, together with securities transfer form in favor of Eskom.
- Fixed-period deposit pledges - A deed of pledge in Eskom's standard form should be completed by the financial institution and endorsed to the effect that a lien has been registered and that there is no previous lien against that particular investment. .
- Letter of Undertaking for Government Departments - In certain cases a letter of undertaking by a Government Department accepting liability for the contractual obligations of another Government department with which the Government is associated, may be accepted instead of the usual guarantees.

**4. Provision of a credit rating in lieu of or in addition to security**

- Certain Conditions apply for qualification and credit rating requirements, namely - existing customers should not have made any late payments to Eskom in the last twelve months. New customers will be required to provide a minimum of 30 days security for the first 12 months where after the amount of security required will be reviewed. The credit rating shall be provided by Moody's, Standard and Poors or Fitch.
- The customer bears the onus of ensuring a credit rating is performed.
- The customer bears all the costs related to the performance of the credit rating.
- The customer will be allowed to provide a credit rating instead of or in addition to its security to meet Eskom's minimum requirements. **(to table below)**

**Short term national ratings of rating agencies**

Short-term ratings	Rating agencies			Level of Security	Days to pay
	Fitch	Moody's	S&P/CA		
Exceptionally strong credit feature/Extremely strong capacity/Superior ability	F1+		A-1+	0 or 30 days	5 days
Highest credit quality/Strong capacity	F1	Prime-1	A-1		
Good credit quality/Satisfactory/Strong ability	F2	Prime-2	A-2	30 or 60 days	7 days
Fair credit quality/Adequate/Acceptable ability	F3	Prime-3	A-3		
Speculative/Vulnerable	B	Not prime	B	90 days	15 days
High default risk/More vulnerable	C	-	C		
Default	D	-	-		

**4. Conclusion**

- It can be said that the risk created by ill discipline regarding the management of credit, cannot be countered by increased levels of deposits / securities paid by customers. All elements of the revenue management chain have to be managed properly.
- Deposits can not and should not be viewed in isolation and will never solve all debt management problems
- There is a direct correlation between good quality of supply, customer service, disciplined credit management and outstanding debt. If the utility performs well there should be no need for a customer not to pay his bill